

**HOWARD SCHOOL DISTRICT NO. 48-3**

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED**

**JUNE 30, 2009**

**HARRINGTON & ASSOCIATES, LTD.**  
**CERTIFIED PUBLIC ACCOUNTANT**

HOWARD SCHOOL DISTRICT NO. 48-3  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2009

Board Members:

Rick Olson - President  
Larry Calmus - Vice President  
Staci Eggert  
Kim Lewis  
Julie Schwader  
Dan Dawson  
Justin Palmquist

Superintendent:

Mike Cullen

Business Manager:

Marcia Sherman

HOWARD SCHOOL DISTRICT NO. 48-3  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board  
Howard School District No. 48-3  
Miner County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, Miner County, South Dakota, as of and for the year ended June 30, 2009, which collectively comprise Howard School District's basic financial statements and have issued our report thereon dated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Howard School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

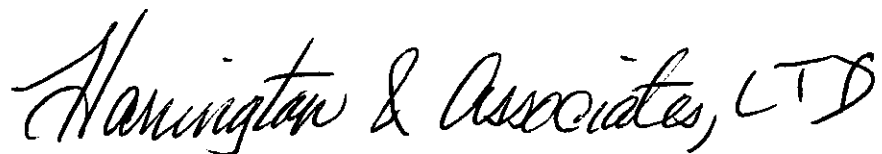
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily

identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Howard School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Howard School District No. 48-3, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Hannington & Associates, LTD". The script is cursive and fluid, with the letters "H" and "A" being particularly large and stylized.

Huron, South Dakota  
June 17, 2010

HOWARD SCHOOL DISTRICT NO. 48-3  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS:

There are no written prior federal compliance audit findings to report.

PRIOR OTHER AUDIT FINDINGS:

There are no written prior other audit findings to report.

HOWARD SCHOOL DISTRICT NO. 48-3  
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

CURRENT FEDERAL AUDIT FINDINGS:

There are no written current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

There are no written current other audit findings to report.



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### INDEPENDENT AUDITOR'S REPORT

School Board  
Howard School District No. 48-3  
Miner County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, Miner County, South Dakota, as of and for the year ended June 30, 2009, which collectively comprise Howard School District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of Howard School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Howard School District No. 48-3, South Dakota as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated on our consideration of Howard School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and, should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 15 and 49 through 55, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Harrington & Associates, LTD*

Huron, South Dakota

June 17, 2010

**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Howard School District 48-3's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2009. Please read it in conjunction with the School's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the year, the School's revenues generated from taxes and other revenues of the governmental and business-type programs were \$48,865 more than the \$3,669,050 governmental and business-type program expenditures.
- The total cost of the School's governmental programs decreased overall by \$6,779 or .2%.

Expenditure Comparison by Fund (excluding depreciation):

	General	Capital Outlay	Special Education	Pension
FY 08	2,504,508	394,141	439,675	70,264
FY 09	<u>2,609,302</u>	<u>236,524</u>	<u>479,649</u>	<u>76,334</u>
	+104,794	-157,617	+39,974	+6,070

- The general fund reported \$84,660 more in current year revenue than expenses primarily to controlling expenses and greater than anticipated revenues in several budget areas. The School District passed a \$225,000 five year opt out of the General Fund tax limitations in 2004. The current opt out ends with taxes payable in 2009 or the 1<sup>st</sup> half of the school fiscal year 2009-2010. The Capital Outlay tax request was increased to \$.99 compared with \$.74 in FY08.
- The district did not receive Special Education Extraordinary Costs funds in FY 08 because revenues were adequate to cover the costs which decreased by \$39,974 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School government, reporting the School's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities that the school operates like businesses. The only proprietary fund operated by the school is the Food Service Operation.
  - Fiduciary fund statements provide information about the financial relationships - like scholarship plans for graduating students - in which the School acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Figure A-1 summarizes the major features of the School's financial statements, including the portion of the School government covered and the types of information contained. The reminder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

**Figure A-1**

**Major Features of Sample School's Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire School government (except fiduciary funds and the fiduciary component units)	The activities of the School that are not proprietary or fiduciary such as elementary and high school education programs	Activities the School operates similar to private businesses the food service operation	Instances in which the School is the trustee or agent for someone else's resources
<b>Required Financial Statements</b>	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	*Statement of Fiduciary Net Assets *Statement of Changes in Fiduciary Net Assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the School's funds do not currently contain capital assets although they can
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year regardless of when cash is received or paid	All revenues and expenses during year regardless of when cash is received or paid

**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Government-wide Statements**

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the School's financial health or position.

- Increases or decreases in the School's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's property tax base and changes in the state school aid funding formula from the State of South Dakota.

The government-wide financial statements of the School are reported in two categories:

- **Governmental Activities** - This category includes the School's basic instructional services, such as elementary and high school educational programs, support services (guidance counselor, executive administration, board of education, fiscal services, etc.), debt service payments, extracurricular activities (sports, debate, music, etc.) and capital equipment purchases. Property taxes, state grants, federal grants and interest earnings finance most of these activities.
- **Business-type Activities** - The school charges a fee to students to help cover the costs of providing hot lunch services to all students. The Food Service Fund is the only business-type activity of the School.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The School Board establishes other funds to control and manage money for particular purposes (like the Scholarship Trust).

The School has three kinds of funds:

- **Governmental Funds** – Most of the School's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

# **HOWARD SCHOOL DISTRICT NO. 48-3 MANAGEMENT'S DISCUSSION AND ANALYSIS**

- **Proprietary Funds** – Services for which the School charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Food Service Enterprise Fund (one type of proprietary fund) is the only proprietary fund maintained by the School.
- **Fiduciary Funds** – The School is the trustee, or fiduciary, for various external and internal parties. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the School's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

### **Net Assets**

The School's combined net assets increased as follows:

Table A-1  
Howard School District 48-3  
Statement of Net Assets-FY 09

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>		<b>Total Percentage Change</b>
	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008-09</b>
Current and Other Assets	\$ 2,417,709	\$ 2,578,991	\$ 14,781	\$ 22,625	\$ 2,432,490	\$ 2,601,616	6.95%
Capital Assets (Net of Depreciation)	3,381,971	3,218,447	14,995	22,083	3,396,966	3,240,530	-4.61%
<b>Total Assets</b>	<b>5,799,680</b>	<b>5,797,438</b>	<b>29,776</b>	<b>44,708</b>	<b>5,829,456</b>	<b>5,842,146</b>	<b>0.22%</b>
Long-Term Liabilities Outstanding	1,265,341	1,201,835	-	-	1,265,341	1,201,835	-5.02%
Other Liabilities	201,594	228,799	3,019	3,145	204,613	231,944	13.36%
<b>Total Liabilities</b>	<b>1,466,935</b>	<b>1,430,634</b>	<b>3,019</b>	<b>3,145</b>	<b>1,469,954</b>	<b>1,433,779</b>	<b>-2.46%</b>
<b>Net Assets</b>							
Invested in Capital Assets,							
Net of Related Debt	2,164,332	2,064,312	14,995	22,083	2,179,327	2,086,395	-4.26%
Restricted	218,556	228,409	11,762	19,480	230,318	247,889	7.63%
Unrestricted	1,949,857	2,074,083	-	-	1,949,857	2,074,083	6.37%
<b>Total Net Assets</b>	<b>4,332,745</b>	<b>4,366,804</b>	<b>26,757</b>	<b>41,563</b>	<b>4,359,502</b>	<b>4,408,367</b>	<b>1.12%</b>
<b>Beginning Net Assets</b>	<b>4,276,414</b>	<b>4,332,745</b>	<b>27,910</b>	<b>26,757</b>	<b>4,304,324</b>	<b>4,359,502</b>	
<b>Increase (Decrease) in Net Assets</b>	<b>56,331</b>	<b>34,059</b>	<b>(1,153)</b>	<b>14,806</b>	<b>55,178</b>	<b>48,865</b>	
<b>Percentage of Increase (Decrease) in Net Assets</b>	<b>1.32%</b>	<b>0.79%</b>	<b>-4.13%</b>	<b>55.34%</b>	<b>1.28%</b>	<b>1.12%</b>	

The Business-type Activity (Food Service Fund) experienced an increase in Net Assets due to the contribution from Capital Outlay of a new steam kettle. The Governmental Activities saw an increase of approximately .79%.

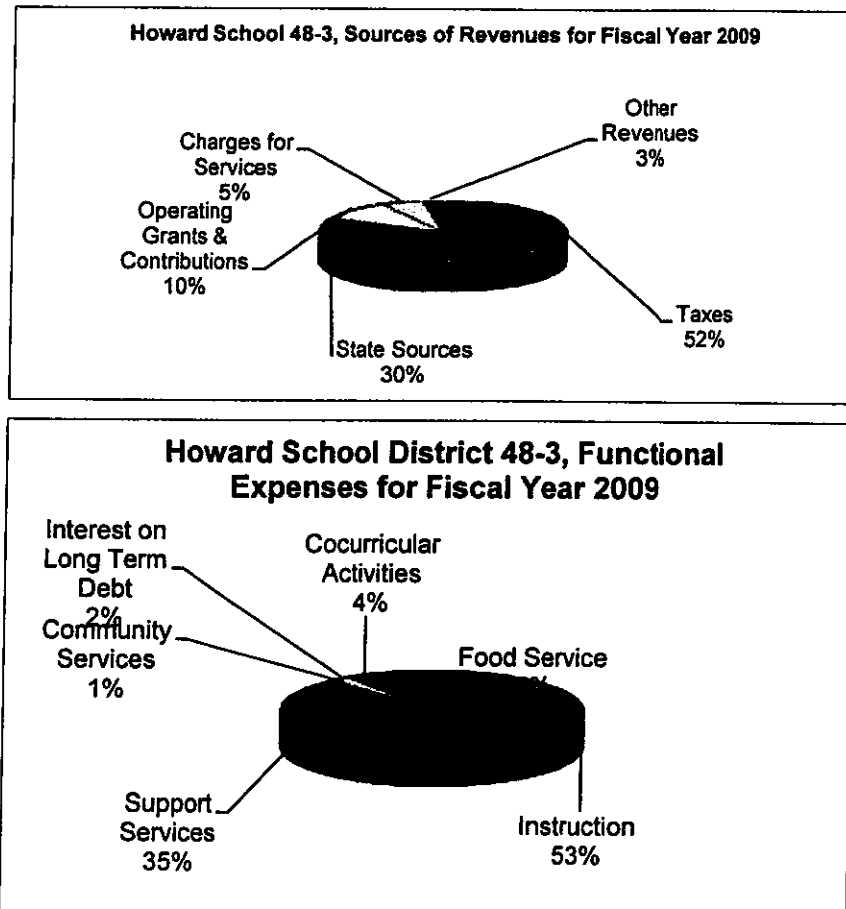
**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the school, consisting of compensated absences payable and capital lease payable have been reported in this manner on the Statement of Net Assets. The difference between the school's assets and liabilities is its net assets.

**Changes in Net Assets**

The School's total revenues totaled \$3,717,915. (See Table A-2.) Approximately 52% of the School's revenue comes from property and other taxes, with approximately 30% coming from state aid. (See Figure A-3).

The total cost of all programs and services totaled to \$3,669,050. The School's expenses cover a range of services, encompassing instruction, support services and food services. (See Figure A-4) The school district also serves as Fiscal Agent for the CORELL (Community Education and Recreation Program) and FAST (Fun After School Time) programs. Revenues and expenses for these programs are included under Operating Grants and Contributions and Non-Programmed Services respectively.



# **HOWARD SCHOOL DISTRICT NO. 48-3** **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

Table A-2 and the narrative that follows consider the operations of the governmental activities and the business-type activities of the school.

## **GOVERNMENTAL ACTIVITIES**

Table A-2  
HOWARD SCHOOL DISTRICT 48-3  
Changes in Net Assets - FY 09

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2008	2009	2008	2009	2008	2009	2008-2009
<b>Revenues</b>							
Program Revenues							
Charges for Services	\$ 88,116	\$ 88,570	\$ 107,026	\$ 110,807	\$ 195,142	\$ 199,377	2.17%
Operating Grants and Contributions	43,209	282,502	65,973	75,026	109,182	357,528	227.46%
Capital Grants and Contributions	32,261	3,150	-	-	32,261	3,150	-90.24%
General Revenues							
Taxes	1,837,088	1,923,248	-	-	1,837,088	1,923,248	4.69%
Revenue State Sources	1,169,350	1,105,429	-	923	1,169,350	1,106,352	-5.39%
Revenue Federal Sources	238,941	-	-	-	238,941	-	-100.00%
Revenue Intermediate Sources	-	-	-	-	-	-	
Revenue Local Sources	-	-	-	-	-	-	
Unrestricted Investment Earnings	55,868	30,501	-	63	55,868	30,564	-45.29%
Other General Revenues	39,525	97,696	-	-	39,525	97,696	147.18%
<b>Total Revenues</b>	<b>\$ 3,504,358</b>	<b>\$ 3,531,096</b>	<b>\$ 172,999</b>	<b>\$ 186,819</b>	<b>\$ 3,677,357</b>	<b>\$ 3,717,915</b>	<b>1.10%</b>
<b>Expenses</b>							
Instruction	\$ 1,883,704	\$ 1,959,268	\$ -	\$ -	\$ 1,883,704	\$ 1,959,268	4.01%
Support Services	1,291,721	1,282,665	-	-	1,291,721	1,282,665	-0.70%
Nonprogrammed Charges	30,483	-	-	-	30,483	-	-100.00%
Debt Service	68,060	55,650	-	-	68,060	55,650	-18.23%
Cocurricular Activities	156,398	161,338	-	-	156,398	161,338	3.16%
Community Services	-	27,843	-	-	-	27,843	100.00%
Food Service	-	-	179,226	182,286	179,226	182,286	1.71%
Depreciation (Unallocated)	12,587	-	-	-	12,587	-	-100.00%
<b>Total Expenses</b>	<b>\$ 3,442,953</b>	<b>\$ 3,486,764</b>	<b>\$ 179,226</b>	<b>\$ 182,286</b>	<b>\$ 3,622,179</b>	<b>\$ 3,669,050</b>	<b>1.29%</b>
Excess (Deficiency) Before Special Items and Transfers	\$ 61,405	\$ 44,332	\$ (6,227)	\$ 4,533	\$ 55,178	\$ 48,865	-11.44%
Food Service Equipment purchased from CO	(5,074)	(10,273)	5,074	10,273	-	-	
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 56,331</b>	<b>\$ 34,059</b>	<b>\$ (1,153)</b>	<b>\$ 14,806</b>	<b>\$ 55,178</b>	<b>\$ 48,865</b>	<b>-11.44%</b>
<b>Beginning Net Assets</b>	<b>\$ 4,276,414</b>	<b>\$ 4,332,745</b>	<b>\$ 27,910</b>	<b>\$ 26,757</b>	<b>\$ 4,304,324</b>	<b>\$ 4,359,502</b>	<b>1.28%</b>
<b>Ending Net Assets</b>	<b>\$ 4,332,745</b>	<b>\$ 4,366,804</b>	<b>\$ 26,757</b>	<b>\$ 41,563</b>	<b>\$ 4,359,502</b>	<b>\$ 4,408,367</b>	<b>1.12%</b>



**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**BUSINESS-TYPE ACTIVITIES**

Revenues of the School's business-type activities (Food Service Operation) increased by \$13,820 and expenses increased \$3,060. Factors contributing to these results included:

- Students were charged \$1.00 for second portions of the main entrée resulting in greater revenue. Federal reimbursement rates increased and student participation in the food service program remained stable.
- The primary reason for the increase in expenses was due to increased wages, high fuel costs and increased costs of food.

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The General Fund Balance increased significantly by \$92,103 from the 2007-2008 school year. Contributing factors included transferring all interest earned into the General Fund, added dollars from the 2004 Opt Out and controls on spending. The Capital Outlay Fund Balance decreased by \$11,434 due to use of carryover funds to make purchases and repairs for the 2008-2009 school year. Special Education noted a \$26,945 decrease in Fund Balance and the Pension Fund ended \$2,500 lower than the previous year. The additional resources in the General Fund are anticipated to be needed in future periods.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the School Board revised the School budget several times. These amendments fall into three categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the education program of this district.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.
- Supplemental appropriations were approved for supplemental grant revenues received after the original budget was adopted.

There were no significant budget changes or budget variances for the year.

**CAPITAL ASSET ADMINISTRATION**

By the end of 2009, the School had invested \$5,367,626 in a broad range of capital assets, including, land, buildings, various machinery and equipment. (a schedule of Capital Assets may be found in the Notes to Financial Statements) This amount represents a net decrease (including additions and deductions) of \$60,057, or 2 percent, under last year due mostly to selling a bus and disposing of a tractor/mower and library books. Significant equipment purchased include wrestling mats, library books, and a steam kettle. The accumulated depreciation on this property totals to \$2,127,096.

**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**LONG-TERM DEBT**

At year-end the School had a total Long Term Debt of \$1,201,835 with \$1,154,135 owed on the Capital Lease-Purchase for the 2007 HVAC upgrade project and \$47,700 in Sick Leave at Retirement Payable. The school is liable for the payment of unused sick leave upon leaving the district. Those certified staff members and the business manager who meet the criteria of working for the school district for fifteen or more years may receive \$40 per day for unused sick leave up to a maximum of 90 days or \$3,600.

**Table A-4  
Howard School District 48-3 - Outstanding Debt and Obligations**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Dollar Change</b>	<b>Total Percentage Change</b>
	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008-2009</b>	<b>2008-2009</b>
Capital Lease	\$ 1,217,641	\$ 1,154,135	\$ -	\$ -	\$ (63,506)	-5.22%
Capital Outlay Certificates	-	-	-	-	-	
Early Retirement	-	-	-	-	-	
Compensated Absences	47,700	47,700	-	-	-	0.00%
<b>Total Outstanding Debt and Obligations</b>	<b>\$ 1,265,341</b>	<b>\$ 1,201,835</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (63,506)</b>	<b>-5.02%</b>

**HOWARD SCHOOL DISTRICT NO. 48-3  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The School's current economic position has shown improvement. The \$225,000 five year general fund opt-out allows the School the ability to increase the amount of revenue generated from property taxes. The total amount which can be levied in the General Fund is limited by the State of South Dakota at rates reestablished annually by the legislature.

One of the primary sources of revenue to the School is based on a per student allocation received from the State of South Dakota. The state aid formula for the current year ensures that property taxes plus state aid will equal \$5,147 per pupil that includes a small school adjustment. The per student allocation for the next year has been increased from the FY 09 formula to \$4,804.60 per student. Howard will receive an adjustment as a small school that amounts to an additional \$467.27 per student for FY 10. Beginning with FY 08, state aid calculations are based on fall enrollment rather than ADM. The district's enrollment changes between FY 08 and 09 cancelled each other out and the fall enrollment for FY 10 will be similar to the FY09 school year. This consistency is a contributing factor in the improved fund balance for the ensuing year.

**HOWARD SCHOOL DISTRICT ENROLLMENT  
FOR LAST FIVE YEARS**

<u>YEAR</u>	<u>Enrollment</u>	<u>Type</u>	<u>Percent</u>
2009	379	Fall	5.0%
2008	361	Fall	(5.9%)
2007	384	Fall	(1.3%)
2006	389	ADM	.0%
2005	389	ADM	(5.4%)

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Howard School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Howard School District Business Office, 500 N. Section Line St., Howard, SD 57349.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 1,190,399	\$ 17,858	\$ 1,208,257
Investments	511,224	-	511,224
Taxes Receivable	845,889	-	845,889
Incidental Imprest Account	2,000	-	-
Inventories	9,069	4,171	13,240
Other Assets	20,410	596	21,006
Capital Assets:			
Land	19,725	-	19,725
Other Capital Assets, Net of Depreciation	3,198,722	22,083	3,220,805
<b>TOTAL ASSETS</b>	<b>\$ 5,797,438</b>	<b>\$ 44,708</b>	<b>\$ 5,842,146</b>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 54,735	\$ 1,455	\$ 56,190
Other Current Liabilities	174,064	1,690	175,754
Noncurrent Liabilities:			
Due Within One Year	71,480	-	71,480
Due in More than One Year	1,130,355	-	1,130,355
<b>TOTAL LIABILITIES</b>	<b>1,430,634</b>	<b>3,145</b>	<b>1,433,779</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	2,064,312	22,083	2,086,395
Restricted for:			
Capital Outlay	204,437	-	204,437
Special Education	21,504	-	21,504
Food Service	-	19,480	19,480
Pension	2,468	-	2,468
Unrestricted	2,074,083	-	2,074,083
<b>TOTAL NET ASSETS</b>	<b>4,366,804</b>	<b>41,563</b>	<b>4,408,367</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,797,438</b>	<b>\$ 44,708</b>	<b>\$ 5,842,146</b>

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	
Primary Government:			
Governmental Activities:			
Instruction	\$ 1,959,268	\$	-
Support Services	1,282,665		55,508
Community Services	27,843		-
Interest on Long-Term Debt	55,650		-
Cocurricular Activities	161,338		33,062
Total Governmental Activities	3,486,764		88,570
Business-Type Activities			
Food Service	182,286		110,807
Total Business-Type Activities	182,286		110,807
Total Primary Government	\$ 3,669,050	\$	199,377

The district does not have interest expense

\*The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The accompanying notes are an integral part of these financial statements.

PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		PRIMARY GOVERNMENT		TOTAL
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES			
\$ 282,502	\$ -	\$ (1,676,766)	\$ -	\$	\$	(1,676,766)
-	3,150	(1,224,007)	-			(1,224,007)
-	-	(27,843)	-			(27,843)
-	-	(55,650)	-			(55,650)
-	-	(128,276)	-			(128,276)
282,502	3,150	(3,112,542)	-			(3,112,542)
75,026	-	-	3,547			3,547
75,026	-	-	3,547			3,547
\$ 357,528	\$ 3,150	\$ (3,112,542)	\$ 3,547	\$	\$	(3,108,995)

GENERAL REVENUES:

Taxes:						
Property Taxes	\$	1,707,588	\$	-	\$	1,707,588
Gross Receipts Taxes		215,660		-		215,660
Revenue from State Sources:						
State Aid		1,092,923		-		1,092,923
Other		12,506		923		13,429
Unrestricted Investment Earnings		30,501		63		30,564
Other General Revenues		97,696		-		97,696
Transfers		(10,273)		10,273		-
Total General Revenues and Transfers		3,146,601		11,259		3,157,860
Change in Net Assets		34,059		14,806		48,865
Net Assets-Beginning		4,332,745		26,757		4,359,502
Net Assets-Ending	\$	4,366,804	\$	41,563	\$	4,408,367

**HOWARD SCHOOL DISTRICT NO. 48-3**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**JUNE 30, 2009**

	<b>GENERAL FUND</b>	<b>CAPITAL OUTLAY FUND</b>
<b>ASSETS:</b>		
Cash and Cash Equivalents	\$ 984,075	\$ 169,956
Investments	511,224	-
Taxes Receivable--Current	494,584	121,663
Taxes Receivable--Delinquent	15,189	1,700
Due from Other Governments	11,215	-
Inventory of Supplies	9,069	-
Permanent Incidental Account	2,000	-
<b>TOTAL ASSETS</b>	<b>\$ 2,027,356</b>	<b>\$ 293,319</b>
<b>LIABILITIES AND FUND BALANCES:</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ 41,260	\$ 2,302
Contracts Payable	127,096	-
Payroll Deductions and Withholding and Employer Matching Payable	22,601	-
Deferred Revenue	509,773	123,363
<b>Total Liabilities</b>	<b>700,730</b>	<b>125,665</b>
<b>Fund Balances:</b>		
Reserved for:		
Inventory	9,069	-
<b>Unreserved Fund Balances:</b>		
Designated for Cash Flow	250,000	-
Designated for Next Years Budget	280,597	2,917
Designated for Unemployment	83,847	-
Undesignated	703,113	164,737
<b>Total Fund Balances</b>	<b>1,326,626</b>	<b>167,654</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,027,356</b>	<b>\$ 293,319</b>

The accompanying notes are an integral part of these financial statements.

SPECIAL EDUCATION FUND	PENSION FUND	TOTAL GOVERNMENTAL FUNDS
\$ 36,366	\$ 2	\$ 1,190,399
-	-	511,224
172,071	36,887	825,205
3,112	683	20,684
9,195	-	20,410
-	-	9,069
-	-	2,000
\$ 220,744	\$ 37,572	\$ 2,578,991

\$ 11,173	\$ -	\$ 54,735
18,728	-	145,824
5,639	-	28,240
175,183	37,570	845,889
210,723	37,570	1,074,688

-	-	9,069
-	-	250,000
-	-	283,514
-	-	83,847
10,021	2	877,873
10,021	2	1,504,303
\$ 220,744	\$ 37,572	\$ 2,578,991



HOWARD SCHOOL DISTRICT NO. 48-3  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009

Total Fund Balances - Governmental Funds \$ 1,504,303

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	The cost of capital assets are	5,329,411	
	Accumulated depreciation is	<u>(2,110,964)</u>	
	Net		3,218,447

Long-term liabilities, including bonds payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	Financing Lease	(1,154,135)	
	Accrued leave payable (vacation)	<u>(47,700)</u>	
	Net		(1,201,835)

Assets such as taxes receivable (delinquent) are not available to pay for the current period expenditures, and therefore are deferred in the funds.	Taxes Receivable	<u>845,889</u>	
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Net Assets-Government Funds \$ 4,366,804

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND	CAPITAL OUTLAY FUND
<b>Revenues:</b>		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 994,897	\$ 214,458
Prior Years' Ad Valorem Taxes	2,663	202
Gross Receipts Taxes	215,660	-
Penalties and Interest on Taxes	2,130	330
Revenue from Local Governmental Units Other Than LEAs:	1,323	-
Tuition and Fees:		
Regular Day School Transportation Fees	12,219	-
Earnings on Investments and Deposits	27,222	2,636
Cocurricular Activities:		
Admissions	27,795	-
Other Pupil Activity Income	5,267	-
Other Revenue from Local Sources:		
Rentals	3,446	-
Contributions and Donations	41,255	-
Services Provided Other LEAs	39,088	-
Charges for Services	14,557	-
Other	7,163	10,100
Revenue from Intermediate Sources:		
County Sources:		
County Apportionment	12,250	-
Revenue in Lieu of Taxes	1,467	-
Revenue from State Sources:		
Grants-in-Aid:		
Unrestricted Grants-in-Aid	1,092,923	-
Other State Revenue	12,506	-
Revenue from Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid Received from Federal Government Through the State	180,133	-
<b>Total Revenue</b>	<b>\$ 2,693,964</b>	<b>\$ 227,726</b>

The accompanying notes are an integral part of these financial statements.

SPECIAL EDUCATION FUND		PENSION FUND		TOTAL GOVERNMENTAL FUNDS	
\$	343,259	\$	73,580	\$	1,626,194
	356		76		3,297
	-		-		215,660
	596		128		3,184
	-		-		1,323
	-		-		12,219
	504		139		30,501
	-		-		27,795
	-		-		5,267
	-		-		3,446
	-		-		41,255
	4,201		-		43,289
	1,923		-		16,480
	-		-		17,263
	-		-		12,250
	-		-		1,467
	-		-		1,092,923
	-		-		12,506
	102,369		-		282,502
\$	453,208	\$	73,923	\$	3,448,821

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND	CAPITAL OUTLAY FUND
<b>Expenditures:</b>		
<b>Instruction:</b>		
<b>Regular Programs:</b>		
Elementary	643,636	15,318
High School	673,450	39,920
<b>Special Programs:</b>		
Gifted and Talented	10,698	-
Programs for Special Education	-	763
Educationally Deprived	72,484	-
<b>Support Services:</b>		
<b>Support Services - Pupils:</b>		
Guidance	74,713	-
Health	1,400	-
Psychological	-	-
Speech Pathology	-	-
Student Therapy Services	-	-
<b>Support Services - Instructional Staff:</b>		
Improvement of Instruction	21,371	-
Educational Media	110,377	3,628
<b>Support Services - General Administration:</b>		
Board of Education	18,908	-
Executive Administration	86,844	-
<b>Support Services - School Administration:</b>		
Office of the Principal	177,024	450
Other	1,063	-
<b>Support Services - Business:</b>		
Fiscal Services	63,494	4,520
Operation and Maintenance of Plant	320,934	27,905
Pupil Transportation	171,221	-
Food Services	-	10,273
<b>Support Services - Central:</b>		
Staff	324	-
<b>Support Services - Special Education:</b>		
Transportation Costs	-	-
<b>Community Services:</b>		
Recreation	3,914	-
Custody and Care of Children	17,206	-
Other	2,760	-

The accompanying notes are an integral part of these financial statements.

SPECIAL EDUCATION FUND	PENSION FUND	TOTAL GOVERNMENTAL FUNDS
-	26,155	685,109
-	29,270	742,640
-	-	10,698
346,229	-	346,992
-	-	72,484
-	3,648	78,361
-	-	1,400
26,196	-	26,196
66,142	-	66,142
35,709	-	35,709
-	-	21,371
-	2,207	116,212
-	-	18,908
-	4,138	90,982
-	8,601	186,075
-	-	1,063
-	2,315	70,329
-	-	348,839
-	-	171,221
-	-	10,273
-	-	324
5,373	-	5,373
-	-	3,914
-	-	17,206
-	-	2,760

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS (CONTD)  
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND	CAPITAL OUTLAY FUND
<b>Expenditures:</b>		
Debt Services	-	119,156
Cocurricular Activities:		
Transportation	8,501	-
Combined Activities	128,980	3,629
Capital Outlay	-	10,962
Total Expenditures	<u>2,609,302</u>	<u>236,524</u>
Excess of Revenues Over (Under) Expenditures	<u>84,662</u>	<u>(8,798)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers In	3,229	-
Transfers Out	-	(2,636)
Sale of Surplus Property	750	
Compensation for Loss of School Property	<u>3,462</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>7,441</u>	<u>(2,636)</u>
 Net Change in Fund Balances	 92,103	 (11,434)
Fund Balance - Beginning	1,234,523	179,088
Fund Balance - Ending	<u>\$ 1,326,626</u>	<u>\$ 167,654</u>

The accompanying notes are an integral part of these financial statements.

SPECIAL EDUCATION FUND	PENSION FUND	TOTAL GOVERNMENTAL FUNDS
-	-	119,156
-	-	8,501
-	-	132,609
-	-	10,962
479,649	76,334	3,401,809
(26,441)	(2,411)	47,012
-	-	3,229
(504)	(89)	(3,229)
-	-	750
-	-	3,462
(504)	(89)	4,212
(26,945)	(2,500)	51,224
36,966	2,502	1,453,079
\$ 10,021	\$ 2	\$ 1,504,303

HOWARD SCHOOL DISTRICT NO. 48-3  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

Total net change in fund balances - governmental funds	\$	51,224
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Amounts reported for governmental activities in the statement of activities are different because:

<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.</p>	<p>Capital Outlays  Depreciation Expense  Net</p>	<p>10,962  <u>(169,696)</u></p>	<p>(158,734)</p>
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<p>Payment of principal on long-term debt is an expenditure in the government funds but the payment reduces long-term liabilities in the statement of assets.</p>	<p>Financing Lease</p>	<p>63,506</p>	
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<p>The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements.</p>	<p>Donated Capital Assets</p>	<p>3,150</p>	
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<p>The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available".</p>	<p>Taxes - Current  July-December 2008  Net</p>	<p>825,205  <u>(750,292)</u></p>	<p><u>74,913</u></p>
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Change in net assets of governmental activities	\$	<u>34,059</u>
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The accompanying notes are an integral part of these financial statements.



HOWARD SCHOOL DISTRICT NO. 48-3  
BALANCE SHEET  
PROPRIETARY FUND  
JUNE 30, 2009

	<u>ENTERPRISE FUND</u> <u>FOOD SERVICE</u> <u>FUND</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$17,858
Accounts Receivable	596
Inventory of Stores Purchased for Resale	2,153
Inventory of Donated Foods	2,018
Total Current Assets	<u>22,625</u>
Capital Assets:	
Machinery and Equipment - Local Funds	38,215
Less: Accumulated Depreciation	<u>(16,132)</u>
Total Noncurrent Assets	<u>22,083</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 44,708</u></b>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	1,455
Payroll Deductions and Withholdings and Employer Matching Payable	<u>\$ 1,690</u>
Total Current Liabilities	<u>3,145</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets	22,083
Unrestricted Net Assets	<u>19,480</u>
Total Net Assets	<u>41,563</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 44,708</u></b>

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2009

	<u>ENTERPRISE FUND</u> <u>FOOD SERVICE</u> <u>FUND</u>
<b>Operating Revenue:</b>	
Sales:	
To Pupils	\$ 93,658
To Adults	10,580
A la Carte	5,759
Other	810
Total Operating Revenue	<u>110,807</u>
<b>Operating Expenses:</b>	
Food Service:	
Salaries	68,125
Employee Benefits	21,251
Purchased Services	2,284
Supplies	2,403
Cost of Sales - Purchased Food	72,489
Cost of Sales - Donated Food	11,980
Miscellaneous	569
Depreciation - Local Funds	3,185
Total Operating Expenses	<u>182,286</u>
Operating Loss	<u>(71,479)</u>
<b>Nonoperating Revenue:</b>	
Investment Earnings	63
State Sources:	
Cash Reimbursements	923
Federal Sources:	
Cash Reimbursements	63,946
Donated Food	11,080
Total Nonoperating Revenue	<u>76,012</u>
Income Before Contributions	4,533
Capital Contributions	10,273
Change in Net Assets	14,806
Net Assets - Beginning	<u>26,757</u>
Net Assets - Ending	<u>\$ 41,563</u>

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS FOOD SERVICE FUND
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 115,218
Payments to Suppliers	(76,138)
Payments to Employees	(90,705)
	<hr/>
Net Cash Used by Operating Activities	(51,625)
<b>Cash Flows from Noncapital Financing Activities:</b>	
Cash Reimbursements - State	\$ 922
Cash Reimbursements - Federal	63,946
	<hr/>
Net Cash Flows from Noncapital Financing Activities	64,868
<b>Cash Flows from Investing Activities:</b>	
Cash Received for Interest	63
	<hr/>
Net Cash Provided by Investing Activities	63
Net Increase in Cash and Cash Equivalents	<hr/> \$ 13,306
Cash and Cash Equivalents at Beginning of Year	\$ 4,552
Cash and Cash Equivalents at End of Year	<hr/> 17,858
Net Increase in Cash and Cash Equivalents	<hr/> <hr/> \$ 13,306
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>	
Operating Loss	\$ (71,479)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,185
Noncash Cost of Sales - Commodities	11,980
Change in Assets and Liabilities:	
Accounts Receivable	4,411
Inventories	152
Accounts and Other Payables	126
Net Cash Used by Operating Activities	<hr/> \$ (51,625)
<b>Noncash Investing, Capital and Financing Activities:</b>	
Value of Commodities Received	<hr/> \$ 11,080
Equipment Purchased by Capital Outlay Fund	<hr/> \$ 10,273

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2009

	PRIVATE PURPOSE TRUST FUND	AGENCY FUNDS
<b>ASSETS:</b>		
Cash and Cash Equivalents		
Other Assets	20,332	114,280
<b>TOTAL ASSETS</b>	<b>\$ 20,332</b>	<b>\$ 114,280</b>
<b>LIABILITIES:</b>		
Due to Other Fund	\$ -	\$ -
Amounts Held for Others	-	114,280
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>114,280</b>
<b>NET ASSETS:</b>		
Held in Trust for School Scholarship	20,332	-
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,332</b>	<b>\$ 114,280</b>

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO.48-3  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2009

	PRIVATE-PURPOSE TRUST FUNDS
ADDITIONS:	
Other Additions	\$ -
Total Additions	-
DEDUCTIONS:	
Trust Deductions for Scholarships	-
Total Deductions	-
Change in Net Assets	-
NET ASSETS - BEGINNING	20,332
NET ASSETS - ENDING	\$ 20,332

The accompanying notes are an integral part of these financial statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Financial Reporting Entity:

The reporting entity of Howard School District No. 48-3, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The School District is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the School District (primary government). The School District may also be financially accountable for another organization if that organization is fiscally dependent on the School District. The School District has no component units.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments.

b. Basis of Presentation:

**Government-wide Financial Statements:** The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. These statements distinguish between the governmental and business-type activities of the School District. Governmental activities generally are financed through

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets, net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

**Governmental Funds:**

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund: A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Special Education Fund: A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund: A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the District's share of retirement plan contributions, and for funding early retirement benefits to qualifying employees. This fund is financed by property taxes. This is a major fund.



HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

**Proprietary Funds:**

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund: A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

**Fiduciary Funds:**

Fiduciary Funds are never considered to be major funds.

Private-Purpose Trust Fund Types - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income, benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust fund: Selix Scholarship Trust Fund and its purpose is scholarships.

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains several agency funds for various class years, clubs, athletic teams which account for the monies earned for the various class, club or team projects.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

c. Measurement Focus and Basis of Accounting: (cont'd)

**Measurement Focus:**

**Government-Wide Financial Statements:** In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

**Fund Financial Statements:** In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

**Basis of Accounting:**

**Government-Wide Financial Statements:** In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

**Fund Financial Statements:** All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Howard School District No. 48-3, the length of that cycle is sixty days.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

d. Interfund Eliminations and Reclassifications:

**Government-Wide Financial Statements:** In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

**Fund Financial Statements:** Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**Government-Wide Financial Statements:** All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at the estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2009 balance of capital assets for governmental activities includes approximately less than one percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total June 30, 2009 balance of capital assets for business-type activities are all valued at original cost.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

e. Capital Assets: (cont'd)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ --	--	--
Land Improvements	\$ 15,000	Straight-line	20 yrs.
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	4-20 yrs.

Land, an inexhaustible capital asset, is not depreciated.

**Fund Financial Statements:** In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, and capital outlay certificates payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources) and payment of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as it is in the government-wide statements.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

g. Program Revenues:

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Assets expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Accumulated Unpaid Vacation and Sick Leave:

Annual leave for eligible employees is earned at the rate of zero to 15 days per year depending on the position. Upon termination, employees are not entitled to receive compensation for their accrued annual leave balance.

Sick leave is earned by the employees at varying rates depending on position. Upon termination, certified staff and the business manager are entitled to reimbursement of unused sick leave up to 90 days at \$40 a day or a \$3,600 maximum.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

j. Deferred Revenue:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

k. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. The enterprise funds have access to their cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

l. Equity Classifications:

**Government-Wide Financial Statements:** Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Fund Financial Statements:** Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

m. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

n. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (CONT'D)

in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Interest Rate Risk** - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices. As of June 30, 2009, the School District's investment in the SD FIT pool was unrated.

**Concentration of Credit Risk** - The School District places no limit on the amount that may be invested in any one issuer. All of the School District's investments are in South Dakota Public Investment Trust (SDFIT).

The investments at June 30, 2009 were as follows:

	Fair Value
External Investment Pools - SDFIT	<u>\$ 511,224</u>

Investments are stated at fair value.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts and counties.

The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

**Assignment of Investment Income** - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the General Fund. United States generally accepted accounting principles, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements,



HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (CONT'D)

interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

3. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is consumption. Donated commodities are valued at estimated market value based on the USDA price list on the date of receipt.

In the government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption.

The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Inventories in the amount \$9,069 were on hand at June 30, 2009 for the governmental funds.

4. PROPERTY TAX:

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

4. PROPERTY TAX: (CONT'D)

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future fiscal year.

5. RECEIVABLES:

Receivables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

Amounts due from other governments include reimbursements for various programs. These amounts include \$ 20,410 due from the federal government.

6. CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets for the fiscal year ended June 30, 2009 is as follows:

Primary Government

	Balance 7/01/08	Increases	Decreases	Balance 6/30/09
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 19,725	\$ --	\$ --	\$ 19,725
Total not being Depreciated	<u>\$ 19,725</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 19,725</u>

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS: (CONT'D)

	Balance 7/01/08	Increases	Decreases	Balance 6/30/09
Capital assets, being depreciated:				
Buildings	3,944,727	--	--	3,944,727
Improvements other than Buildings	137,227	--	--	137,227
Machinery and Equipment	<u>1,298,062</u>	<u>14,112</u>	<u>84,442</u>	<u>1,227,732</u>
Totals	<u>5,380,016</u>	<u>14,112</u>	<u>84,442</u>	<u>5,309,686</u>
Less accumulated depreciation for:				
Buildings	1,275,704	90,801	--	1,366,505
Improvements other than buildings	92,763	4,816	--	97,579
Machinery and Equipment	<u>649,301</u>	<u>74,080</u>	<u>76,501</u>	<u>646,880</u>
Total accumulated depreciation	<u>2,017,768</u>	<u>169,697</u>	<u>76,501</u>	<u>2,110,964</u>
Total capital assets, being depreciated, net	<u>3,362,248</u>	<u>(155,585)</u>	<u>7,941</u>	<u>3,198,722</u>
Governmental activity capital assets, net	<u>\$ 3,381,973</u>	<u>\$ (155,585)</u>	<u>\$ 7,941</u>	<u>\$ 3,218,447</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 97,381
Support Services	41,482
Cocurricular activities	18,246
Depreciation-unallocated, net direct depreciation of various activities	<u>12,587</u>
Total depreciation expense-governmental activities	<u>\$ 169,696</u>

This school district received \$3,150 in donated capital assets.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS: (CONT'D)

	Balance 7/01/08	Increases	Decreases	Balance 6/30/09
Business-type activities:				
Capital assets, being depreciated:				
Machinery and Equipment	\$ 27,942	\$ 10,273	\$ --	\$ 38,215
Totals	<u>27,942</u>	<u>10,273</u>	<u>--</u>	<u>38,215</u>
Less accumulated depreciation for:				
Machinery and Equipment	<u>12,947</u>	<u>3,185</u>	<u>--</u>	<u>16,132</u>
Total accumulated depreciation	<u>12,947</u>	<u>3,185</u>	<u>--</u>	<u>16,132</u>
Total capital assets, being depreciated, net	<u>14,995</u>	<u>7,088</u>	<u>--</u>	<u>22,083</u>
Business-type activity capital assets, net	<u>\$ 14,995</u>	<u>\$ 7,088</u>	<u>\$ --</u>	<u>\$ 22,083</u>
Depreciation expense was charged to functions as follows:				
Business-type activities:				
Food Service				<u>\$ 3,185</u>

7. LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	Balance 7/01/08	Increases	Decreases	Balance 6/30/09	Amount Due Within One Year
Governmental Activities					
Financing Lease	\$ 1,217,641	\$ --	\$63,506	\$1,154,135	\$66,480
Compensated Absences	47,700	--	--	47,700	5,000
	<u>\$ 1,265,341</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$1,201,835</u>	<u>\$ 71,480</u>

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

7. LONG-TERM LIABILITIES: (CONT'D)

Compensated absences for governmental activities have been liquidated from the General and Special Education Fund.

Debt Payable at June 30, 2009 is comprised of the following:

Financing Lease:

The School District enter into a Lease-Purchase Agreement with Wells-Fargo to fund the HVAC upgrade project began in FY 07 and completed in FY 08. Costs funded were \$1,268,736 at 4.63% with repayment scheduled at 30 payments, 2 per year, over a 15 year period.

\$ 1,154,135

Compensated Absences

\$ 47,700

The annual requirements to amortize the financing lease outstanding at June 30, 2009, are as follows:

	Capital Outlay Certificates		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	66,480	52,676	119,156
2011	69,594	49,562	119,156
2012	72,853	46,303	119,156
2013	76,265	42,891	119,156
2014	79,837	39,319	119,156
2015-2019	458,903	136,875	595,778
2020-2022	330,203	27,265	357,468
TOTALS	<u>\$ 1,154,135</u>	<u>\$ 394,891</u>	<u>\$ 1,549,026</u>

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

8. OPERATIONAL AGREEMENTS:

The School District entered into a four-year operational agreement with the Shannon Colony on July 30, 2008, expiring in the 2011-2012 school year. The agreement contains various covenants and restrictions. Shannon Colony will fund the difference between operating costs incurred by the School District and the contribution provided by the School District to rent the facilities and the revenue allowed per student as established by the legislature.

9. INTERFUND BALANCES AND ACTIVITY:

Interfund receivable and payable balances at June 30, 2009 consist of the following for loans for operations:

Transfers to/from other funds at June 30, 2009, consist of the following:

	Transfers from the other governmental funds to the General Fund
<u>\$ 3,229</u>	for income earned on deposits.

10. RESTRICTED NET ASSETS:

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay	Law	\$ 204,437
Special Education	Law	21,504
Food Service	Federal Regulations	19,480
Pension	Law	2,468
	Total Restricted Net Assets	<u>\$ 250,357</u>

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

11. DESIGNATED FUND BALANCE:

As authorized by SDCL 13-11-2, the school board has determined that year-end minimum unreserved fund balance of \$250,000 is necessary to protect the school district's cash liquidity for July 1, through mid-November of the subsequent fiscal year. This amount is reported as Unreserved Fund Balance Designated for Cash Flow Funding in the affected fund.

The school board has applied to the means of financing the subsequent fiscal year's annual budget, \$283,514 of resources accumulated over prior years as part of Unreserved Fund Balance. This amount is reported as Unreserved Fund Balance Designated for Next Year's Budget in the affected fund.

12. RETIREMENT PLAN:

All employees, except for board members and employees that work more than 20 hours per week, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12.

The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution and to also make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for Social Security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2009, 2008 and 2007 were \$122,591, \$117,384, and \$111,864, (employer's share) respectively, equal to the required contributions each year.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

13. JOINT VENTURES:

The School District participates in the Prairie Lakes Educational Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education services and fiscal management services to the member school districts.

The members of the co-op and their relative percentage participation in the co-op are as follows:

Baltic School District No. 49-1	7.78%
Chester Area School District No. 39-1	5.78%
Colman-Egan School District No. 50-5	4.67%
Dell Rapids School District No. 49-3	15.57%
Flandreau School District No. 50-3	15.57%
Garretson School District No. 49-4	6.23%
Howard School District No. 48-3	9.34%
Madison Central School District No. 39-2	15.58%
Oldham-Ramona School District No. 39-5	3.11%
Rutland School District No. 39-4	1.56%
Tri-Valley School District No. 49-6	14.81%

The co-op's governing board is composed of one representative from each member school district, who is a School Board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Prairie Lakes Educational Cooperative.

At June 30, 2009, this joint venture had total assets of \$97,243, total liabilities of \$43,570 and net assets of \$53,673.



HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

14. RISK MANAGEMENT:

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the School District managed its risks as follows:

Health Insurance

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage for the past several years.

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School District has equity in the General Fund in the amount of, \$83,846 for the payment of future unemployment benefits.

During the year ended June 30, 2009, there were no claims for unemployment benefits and none are anticipated in the next fiscal year.

Liability Insurance

The School District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage for the past several years.

Workmen's Compensation

The School District purchases liability insurance for workmen's compensation from a commercial carrier.

15. OTHER MATTERS:

The School Board adopted a resolution to declare an opt-out on the property tax freeze in the amount of \$225,000 per year for a five year period. The resolution was referred to a public vote on June 15, 2004 and the voters approved the opt-out.

## REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Revenues:</b>		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 1,038,200	\$ 1,038,200
Prior Years' Ad Valorem Taxes	2,500	2,500
Gross Receipts Taxes	200,000	200,000
Penalties and Interest on Taxes	2,500	2,500
Revenue from Local Governmental Units Other Than LEAs:		
Revenue in Lieu of Taxes	1,200	1,200
Tuition and Fees:		
Regular Day School Tuition Transportation Fees	10,000	10,000
Earnings on Investments and Deposits	40,000	40,000
Cocurricular Activities:		
Admissions	23,300	23,300
Other Pupil Activity Income	5,000	5,000
Other Revenue from Local Sources:		
Rentals	1,500	1,500
Contributions and Donations	43,975	43,975
Services Provided	30,900	30,900
Charges for Services	12,000	12,000
Other	6,600	6,600
Revenue from Intermediate Sources:		
County Sources:		
County Apportionment	10,000	10,000
Revenue in Lieu of Taxes	1,500	1,500
Revenue from State Sources:		
Grants-in-Aid:		
Unrestricted Grants-in-Aid	1,149,388	1,149,388
Other State Revenue	1,500	1,500
Revenue from Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid Received from Federal Government Through the State	102,397	102,397
<b>Total Revenue</b>	<b>\$ 2,682,460</b>	<b>\$ 2,682,460</b>

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
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\$	994,897	\$	(43,303)
	2,663		163
	215,660		15,660
	2,130		(370)
	1,323		123
	12,219		2,219
	27,222		(12,778)
	27,795		4,495
	5,267		267
	3,446		1,946
	41,255		(2,720)
	39,088		8,188
	14,557		2,557
	7,163		563
	12,250		2,250
	1,467		(33)
	1,092,923		(56,465)
	12,506		11,006
	180,133		77,736
\$	2,693,964	\$	11,504

REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Expenditures:</b>		
Instruction:		
Regular Programs:		
Elementary	\$ 669,445	\$ 669,445
High School	670,310	675,085
Special Programs:		
Gifted and Talented	-	-
Educationally Deprived	84,380	84,380
Other Special Programs	13,000	13,000
Support Services:		
Support Services - Pupils:		
Guidance	74,485	74,485
Health	1,400	1,400
Support Services - Instructional Staff:		
Improvement of Instruction	23,800	23,800
Educational Media	118,605	118,605
Support Services - General Administration:		
Board of Education	29,685	29,685
Executive Administration	90,980	90,980
Support Services - School Administration:		
Office of the Principal	179,765	179,765
Other	1,000	1,065
Support Services - Business:		
Fiscal Services	63,625	63,625
Operation and Maintenance of Plant	352,895	352,895
Pupil Transportation	203,450	203,450
Support Services - Central:		
Staff	500	500
Community Services:		
Recreation	15,000	15,000
Custody and Care of Children	13,250	17,750
Other	4,450	4,450
Nonprogrammed Charges:		
Payments to State - Unemployment	2,500	2,500
Cocurricular Activities:		
Transportation	-	-
Combined Activities	141,580	141,580

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
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\$	643,636	\$	25,809
	673,450	\$	1,635
	10,698	\$	(10,698)
	72,484	\$	11,896
	-	\$	13,000
	74,713	\$	(228)
	1,400	\$	-
	21,371	\$	2,429
	110,377	\$	8,228
	18,908	\$	10,777
	86,844	\$	4,136
	177,024	\$	2,741
	1,063	\$	2
	63,494	\$	131
	320,934	\$	31,961
	171,221	\$	32,229
	324	\$	176
	3,914	\$	11,086
	17,206	\$	544
	2,760	\$	1,690
	-	\$	2,500
	8,501	\$	(8,501)
	128,980	\$	12,600

REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS (CONT'D)  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Expenditures:</b>		
Contingencies	75,000	75,000
Amount Transferred	-	(1,240)
Total Expenditures	2,829,105	2,837,205
Excess of Revenue Over (Under) Expenditures	(146,645)	(154,745)
<b>Other Financing Sources:</b>		
Transfers In	-	-
Sale of Surplus Property	-	-
Compensation for Loss of School Property	-	-
Total Other Financing Sources	-	-
Net Change in Fund Balances	(146,645)	(154,745)
Fund Balance - Beginning	1,234,523	1,234,523
Fund Balance - Ending	\$ 1,087,878	\$ 1,079,778

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS (BUDGETARY BASIS)	VARIANCE WITH FINAL BUDGET- POSITIVE (NEGATIVE)
-	75,000
-	(1,240)
2,609,302	227,903
84,662	239,407
3,229	3,229
750	750
3,462	3,462
7,441	7,441
92,103	246,848
1,234,523	-
\$ 1,326,626	246,848



REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
CAPITAL OUTLAY FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Revenues:</b>		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 226,000	\$ 226,000
Prior Years' Ad Valorem Taxes	500	500
Penalties and Interest on Taxes	500	500
Earnings on Investments and Deposits	-	-
Other Revenue from Local Sources	-	-
<b>Total Revenue</b>	<b>227,000</b>	<b>227,000</b>
<b>Expenditures:</b>		
Instruction:		
Regular Programs:		
Elementary	24,400	24,400
High School	44,000	44,000
Special Programs:		
Programs for Special Education	2,750	2,750
Support Services - Pupils:		
Speech Pathology	700	700
Support Services - Instructional Staff:		
Educational Media	12,770	12,770
Support Services - School Administration:		
Office of the Principal	-	450
Support Services - Business:		
Fiscal Services	4,520	4,520
Operation and Maintenance of Plant	35,000	35,000
Food Services	12,000	12,000
Debt Services	119,160	119,160
Cocurricular Activities:		
Combined Activities	9,200	9,200
<b>Total Expenditures</b>	<b>264,500</b>	<b>264,950</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(37,500)</b>	<b>(37,950)</b>
<b>Other Financing Sources:</b>		
Transfers Out	-	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(37,500)</b>	<b>(37,950)</b>
<b>Fund Balance - Beginning</b>	<b>179,088</b>	<b>179,088</b>
<b>Fund Balance - Ending</b>	<b>\$ 141,588</b>	<b>\$ 141,138</b>

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS (BUDGETARY BASIS)	FINAL BUDGET - POSITIVE (NEGATIVE)
-------------------------------------	---------------------------------------

\$	214,458	\$	(11,542)
	202		(298)
	330		(170)
	2,636		2,636
	10,100		10,100
	<u>227,726</u>		<u>726</u>

15,318	9,082
39,920	4,080

763	1,987
-----	-------

-	700
---	-----

9,590	3,180
-------	-------

450	-
-----	---

4,520	-
27,905	7,095
10,273	1,727
119,156	4

8,629	571
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<u>236,524</u>	<u>28,426</u>
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<u>(8,798)</u>	<u>29,152</u>
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(2,636)	(2,636)
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(2,636)	(2,636)
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(11,434)	26,516
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179,088	-
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\$	167,654	\$	26,516
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REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Revenues:</b>		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 361,125	\$ 361,125
Prior Years' Ad Valorem Taxes	400	400
Penalties and Interest on Taxes	500	500
Other Revenue from Local Sources		
Services Provided Other LEAs	13,080	13,080
Charges for Services	1,200	1,200
Earnings on Investments and Deposits	-	-
Revenue from Federal Sources:		
Grants-in-Aid:		
Restricted Grants-in-Aid Received from Through The State	98,842	98,842
<b>Total Revenue</b>	<b>475,147</b>	<b>475,147</b>
<b>Expenditures:</b>		
Instruction:		
Special Programs:		
Programs for Special Education	365,890	382,890
Support Services - Pupils:		
Psychological	28,000	28,000
Speech Pathology	68,755	68,755
Student Therapy Services	32,065	32,365
Support Services - Special Education		
Administrative Costs	2,500	2,950
Transportation Costs	6,080	6,080
<b>Total Expenditures</b>	<b>503,290</b>	<b>521,040</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(28,143)</b>	<b>(45,893)</b>
<b>Other Financing Uses:</b>		
Transfers In (Out)	-	-
<b>Net Change in Fund Balances</b>	<b>(28,143)</b>	<b>(45,893)</b>
<b>Fund Balance - Beginning</b>	<b>36,966</b>	<b>36,966</b>
<b>Fund Balance - Ending</b>	<b>\$ 8,823</b>	<b>\$ (8,927)</b>

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS	FINAL BUDGET -
(BUDGETARY BASIS)	POSITIVE (NEGATIVE)

\$	343,259	\$	(17,866)
	356		(44)
	596		96
	4,201		(8,879)
	1,923		723
	504		504
	102,369		3,527
	453,208		(21,939)
	346,229		36,661
	26,196		1,804
	66,142		2,613
	35,709		(3,344)
	-		2,950
	5,373		707
	479,649		41,391
	(26,441)		19,452
	(504)		(504)
	(26,945)		18,948
	36,966		-
\$	10,021	\$	18,948

REQUIRED SUPPLEMENTARY INFORMATION  
HOWARD SCHOOL DISTRICT NO. 48-3  
BUDGETARY COMPARISON SCHEDULE  
PENSION FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2009

	BUDGETED AMOUNTS	
	ORIGINAL	FINAL
<b>Revenues:</b>		
Revenue from Local Sources:		
Taxes:		
Ad Valorem Taxes	\$ 77,255	\$ 77,255
Prior Years' Ad Valorem Taxes	150	150
Penalties and Interest on Taxes	-	-
Earnings on Investments and Deposits	-	-
<b>Total Revenue</b>	<b>77,405</b>	<b>77,405</b>
<b>Expenditures:</b>		
Instruction:		
Regular Programs:		
Elementary	26,155	26,155
High School	30,670	30,670
Support Services:		
Support Services - Pupils:		
Guidance	3,705	3,705
Support Services - Instructional Staff:		
Educational Media	2,210	2,210
Support Services - General Administration:		
Executive Administration	4,180	4,180
Support Services - School Administration:		
Office of the Principal	8,775	8,775
Support Services - Business:		
Fiscal Services	2,320	2,320
<b>Total Expenditures</b>	<b>78,015</b>	<b>78,015</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(610)</b>	<b>(610)</b>
<b>Other Financing Uses:</b>		
Operating Transfer Out	-	-
<b>Net Change in Fund Balances</b>	<b>(610)</b>	<b>(610)</b>
<b>Fund Balance - Beginning</b>	<b>2,502</b>	<b>2,502</b>
<b>Fund Balance - Ending</b>	<b>\$ 1,892</b>	<b>\$ 1,892</b>

The accompanying notes are an integral part of these financial statements.

ACTUAL AMOUNTS (BUDGETARY BASIS)		VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)	
\$	73,580	\$	(3,675)
	76		(74)
	128		128
	139		139
	73,923		(3,482)
	26,155		-
	29,270		1,400
	3,648		57
	2,207		3
	4,138		42
	8,601		174
	2,315		5
	76,334		1,681
	(2,411)		(1,801)
	(89)		(89)
	(2,500)		(1,890)
	2,502		-
\$	2	\$	(1,890)

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2009

1. BASIS OF PRESENTATION:

The financial statements prepared in conformity with accounting principles generally accepted in the United States of America present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the budgetary Required Supplementary Information Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services-Business/Pupil Transportation function of government, along with all other current Pupil Transportation related expenditures.

2. BUDGETS AND BUDGETARY ACCOUNTING:

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year. The proposed budget is published for public review no later than July 15 each year. Public hearings are held to solicit taxpayer input prior to the approval of the budget. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
- b. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in letter d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.

HOWARD SCHOOL DISTRICT NO. 48-3  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2009

2. BUDGETS AND BUDGETARY ACCOUNTING: (CONT'D)

- e. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds.

No encumbrances were outstanding at June 30, 2009.

- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
- g. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).